

MOVADO GROUP INC
Form 10-Q
June 02, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended April 30, 2011

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 1-16497

MOVADO GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Edgar Filing: MOVADO GROUP INC - Form 10-Q

New York
(State or Other Jurisdiction of

13-2595932
(IRS Employer

Incorporation or Organization)

Identification No.)

650 From Road, Ste. 375

Paramus, New Jersey
(Address of Principal Executive Offices)

07652-3556
(Zip Code)

(201) 267-8000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for that past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's Common Stock and Class A Common Stock as of May 26, 2011 were 18,222,913 and 6,634,319, respectively.

Table of Contents

MOVADO GROUP, INC.

Index to Quarterly Report on Form 10-Q

April 30, 2011

	Page
Part I	
Financial Information (Unaudited)	
Item 1. <u>Consolidated Balance Sheets at April 30, 2011, January 31, 2011 and April 30, 2010</u>	3
<u>Consolidated Statements of Operations for the three months ended April 30, 2011 and 2010</u>	4
<u>Consolidated Statements of Cash Flows for the three months ended April 30, 2011 and 2010</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 4. <u>Controls and Procedures</u>	27
Part II	
Other Information	
Item 1. <u>Legal Proceedings</u>	28
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 6. <u>Exhibits</u>	29
<u>Signature</u>	30

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****MOVADO GROUP, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share amounts)

(Unaudited)

	April 30, 2011	January 31, 2011	April 30, 2010
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 109,256	\$ 103,016	\$ 62,020
Trade receivables, net	60,610	59,768	59,228
Inventories	185,885	181,265	206,911
Other current assets	35,222	30,444	39,945
Total current assets	390,973	374,493	368,104
Property, plant and equipment, net	37,642	38,525	41,764
Deferred income taxes	8,282	8,317	12,561
Other non-current assets	23,120	22,522	30,348
Total assets	\$ 460,017	\$ 443,857	\$ 452,777
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Accounts payable	\$ 21,168	\$ 21,487	\$ 18,759
Accrued liabilities	38,731	39,734	35,621
Deferred and current income taxes payable	410	1,328	523
Total current liabilities	60,309	62,549	54,903
Long-term debt			10,000
Deferred and non-current income taxes payable	7,174	6,960	7,944
Other non-current liabilities	18,618	17,869	22,668
Total liabilities	86,101	87,378	95,515
Commitments and contingencies (Note 8)			
Equity:			
Preferred Stock, \$0.01 par value, 5,000,000 shares authorized; no shares issued			
Common Stock, \$0.01 par value, 100,000,000 shares authorized; 25,978,334, 25,910,838 and 25,216,133 shares issued, respectively	260	259	252
Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized; 6,634,319, 6,634,319 and 6,634,319 shares issued and outstanding, respectively	66	66	66
Capital in excess of par value	150,007	149,492	138,810
Retained earnings	222,430	222,685	257,443
Accumulated other comprehensive income	110,201	93,028	60,789
Treasury Stock, 7,754,977, 7,743,676 and 7,174,049 shares, respectively, at cost	(111,503)	(111,331)	(102,103)

Edgar Filing: MOVADO GROUP INC - Form 10-Q

Total Movado Group, Inc. shareholders' equity	371,461	354,199	355,257
Noncontrolling interests	2,455	2,280	2,005
Total equity	373,916	356,479	357,262
Total liabilities and equity	\$ 460,017	\$ 443,857	\$ 452,777

See Notes to Consolidated Financial Statements

Table of Contents**MOVADO GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended April 30,	
	2011	2010
Continuing operations:		
Net sales	\$ 89,854	\$ 72,804
Cost of sales	41,231	34,306
Gross profit	48,623	38,498
Selling, general and administrative	47,043	43,641
Operating income / (loss)	1,580	(5,143)
Interest expense	(383)	(672)
Interest income	29	27
Income / (loss) from continuing operations before income taxes	1,226	(5,788)
Provision for income taxes (Note 9)	715	417
Income / (loss) from continuing operations	511	(6,205)
Discontinued operations:		
(Loss) from discontinued operations, net of tax		(5,972)
Net income / (loss)	511	(12,177)
Less: Net income attributed to noncontrolling interests	20	222
Net income / (loss) attributed to Movado Group, Inc.	\$ 491	(\$12,399)
Income / (loss) attributable to Movado Group, Inc.:		
Income / (loss) from continuing operations, net of tax	\$ 491	(\$6,427)
(Loss) from discontinued operations, net of tax		(5,972)
Net income / (loss)	\$ 491	(\$12,399)
Basic income / (loss) per share:		
Weighted basic average shares outstanding	24,873	24,670
Income / (loss) per share from continuing operations attributed to Movado Group, Inc.	\$ 0.02	(\$0.26)
(Loss) per share from discontinued operations	\$	(\$0.24)
Net income / (loss) per share attributed to Movado Group, Inc.	\$ 0.02	(\$0.50)
Diluted income / (loss) per share:		
Weighted diluted average shares outstanding	25,078	24,670
Income / (loss) per share from continuing operations attributed to Movado Group, Inc.	\$ 0.02	(\$0.26)
(Loss) per share from discontinued operations	\$	(\$0.24)
Net income / (loss) per share attributed to Movado Group, Inc.	\$ 0.02	(\$0.50)
Dividends declared per share	\$ 0.03	\$

See Notes to Consolidated Financial Statements

Table of Contents**MOVADO GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Three Months Ended April 30,	
	2011	2010
Cash flows from operating activities:		
Net income / (loss)	\$ 511	(\$ 12,177)
Adjustments to reconcile net income / (loss) to net cash provided by / (used in) operating activities:		
Loss from discontinued operations		5,972
Depreciation and amortization	2,943	3,521
Deferred income taxes	125	59
Stock-based compensation	414	401
Changes in assets and liabilities:		
Trade receivables	815	8,215
Inventories	3,877	(2,623)
Other current assets	(1,097)	(3,807)
Accounts payable	(1,121)	(3,582)
Accrued liabilities	(2,197)	1,496
Income taxes payable	(934)	8
Other non-current assets	(477)	(1,980)
Other non-current liabilities	745	950
Net cash provided by / (used in) operating activities from continuing operations	3,604	(3,547)
Net cash (used in) operating activities from discontinued operations	(19)	(2,328)
Net cash provided by / (used in) operating activities	3,585	(5,875)
Cash flows from investing activities:		
Capital expenditures	(1,622)	(1,480)
Trademarks	(24)	(158)
Net cash (used in) investing activities from continuing operations	(1,646)	(1,638)
Net cash (used in) investing activities from discontinued operations		
Net cash (used in) investing activities	(1,646)	(1,638)
Cash flows from financing activities:		
Proceeds of bank borrowings		15,000
Repayments of bank borrowings		(15,000)
Stock options exercised	(71)	302
Dividends paid	(746)	
Net cash (used in) / provided by financing activities from continuing operations	(817)	302
Net cash (used in) financing activities from discontinued operations		
Net cash (used in) / provided by financing activities	(817)	302

Edgar Filing: MOVADO GROUP INC - Form 10-Q

Effect of exchange rate changes on cash and cash equivalents	5,118	(1,744)
Net increase / (decrease) in cash and cash equivalents	6,240	(8,955)
Cash and cash equivalents at beginning of period	103,016	70,975
Cash and cash equivalents at end of period	\$ 109,256	\$ 62,020

See Notes to Consolidated Financial Statements

Table of Contents

MOVADO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by Movado Group, Inc. (the Company) in a manner consistent with that used in the preparation of the consolidated financial statement included in the Company's fiscal 2011 Annual Report filed on Form 10-K. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the financial position and results of operations for the periods presented. These consolidated financial statements should be read in conjunction with the aforementioned Annual Report. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

NOTE 1 RECLASSIFICATIONS

Certain reclassifications were made to prior year's financial statement amounts and related note disclosures to conform to the fiscal 2012 presentation. In fiscal 2011, certain receivables were reclassified from accounts receivables to other current assets to conform to fiscal 2012 presentation. In addition, certain prior year financial statement amounts have been adjusted to reflect the Company's change in inventory accounting discussed in Note 5.

NOTE 2 FAIR VALUE MEASUREMENTS

As of February 1, 2008, the Company adopted accounting guidance related to fair value measurements for financial assets and liabilities that are recognized or disclosed at fair value in the Company's consolidated financial statements and on February 1, 2009, the Company adopted fair value measurements for non-recurring financial assets and liabilities. The adoption did not have a material effect on the Company's consolidated financial statements. The guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3 - Unobservable inputs based on the Company's assumptions.

The guidance requires the use of observable market data if such data is available without undue cost and effort. The Company's adoption of the guidance did not result in any changes to the accounting for its financial assets and liabilities. Therefore, the primary impact to the Company upon its adoption of this guidance was to expand its fair value measurement disclosures.

Table of Contents

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of April 30, 2011 (in thousands):

	Fair Value at April 30, 2011			Total
	Level 1	Level 2	Level 3	
Assets:				
Available-for-sale securities	\$ 290	\$	\$	\$ 290
SERP assets - employer	435			435
SERP assets - employee	15,403			15,403
Hedge derivatives		2,350		2,350
Total	\$ 16,128	\$ 2,350	\$	\$ 18,478
Liabilities:				
SERP liabilities - employee	\$ 15,403	\$	\$	\$ 15,403

The fair values of the Company's available-for-sale securities are based on quoted prices. The hedge derivatives are entered into by the Company principally to reduce its exposure to the Swiss franc exchange rate risk. Fair values of the Company's hedge derivatives are calculated based on quoted foreign exchange rates, quoted interest rates and market volatility factors. The assets related to the Company's defined contribution supplemental executive retirement plan (SERP) consist of both employer (employee unvested) and employee assets which are invested in investment funds with fair values calculated based on quoted market prices. The SERP liability represents the Company's liability to the employees in the plan for their vested balances.

NOTE 3 EQUITY AND COMPREHENSIVE INCOME/ (LOSS)

The components of equity for the three months ended April 30, 2011 and 2010 are as follows (in thousands):

	Movado Group, Inc. Shareholders' Equity							
	Class Common Stock	Class A Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance, January 31, 2011	\$ 259	\$ 66	\$ 149,492	\$ 222,685	(\$ 111,331)	\$ 93,028	\$ 2,280	\$ 356,479
Net income				491			20	511
Dividends paid				(746)				(746)
Stock options exercised, net of tax	1		101		(172)			(70)
Stock-based compensation expense			414					414
Net unrealized gain on investments, net of tax						5		5
Net change in effective portion of hedging contracts, net of tax						(319)		(319)
Foreign currency translation adjustment						17,487	155	17,642
Balance, April 30, 2011	\$ 260	\$ 66	\$ 150,007	\$ 222,430	(\$ 111,503)	\$ 110,201	\$ 2,455	\$ 373,916

Table of Contents

	Movado Group, Inc. Shareholders Equity						Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock				
Balance, January 31, 2010	\$ 251	\$ 66	\$ 138,076	\$ 269,842	(\$ 102,071)	\$ 67,390	\$ 1,884	\$ 375,438	
Net (loss) / income				(12,399)			222	(12,177)	
Stock options exercised, net of tax	1		333		(32)			302	
Stock-based compensation expense			401					401	
Net unrealized gain on investments, net of tax						58		58	
Net change in effective portion of hedging contracts, net of tax						(141)		(141)	
Foreign currency translation adjustment						(6,518)	(101)	(6,619)	
Balance, April 30, 2010	\$ 252	\$ 66	\$ 138,810	\$ 257,443	(\$ 102,103)	\$ 60,789	\$ 2,005	\$ 357,262	

The components of comprehensive income / (loss) for the three months ended April 30, 2011 and 2010 are as follows (in thousands):

	Three Months Ended April 30,	
	2011	2010
Net income / (loss)	\$ 511	(\$12,177)
Net unrealized gain on investments, net of tax	5	58
Net change in effective portion of hedging contracts, net of tax	(319)	(141)
Foreign currency translation adjustments (1)	17,642	(6,619)
Comprehensive income / (loss)	17,839	(18,879)
Less: Comprehensive income attributable to noncontrolling interests	175	121
Total comprehensive income / (loss) attributable to Movado Group, Inc.	\$ 17,664	(\$19,000)

(1) The foreign currency translation adjustments are tax-affected to the extent they relate to non permanent investments in foreign subsidiaries.

NOTE 4 SEGMENT INFORMATION

The Company follows accounting guidance related to disclosures about segments of an enterprise and related information. This guidance requires disclosure of segment data based on how management makes decisions about allocating resources to segments and measuring their performance.

With the exception of Total Assets and Long-Lived Assets, the Retail segment and United States segment information presented below no longer include amounts related to the Movado boutiques, which were closed during the second quarter of fiscal 2011 and subsequently reported as discontinued operations.

Table of Contents

The Company conducts its business primarily in two operating segments: Wholesale and Retail. The Company's Wholesale segment includes the designing, manufacturing and distribution of quality watches, in addition to revenue generated from after sales service activities and shipping. The Retail segment includes the Company's outlet stores and the Movado brand flagship store located at Rockefeller Center in New York City.

The Company divides its business into two major geographic segments: United States operations, and International, which includes the results of all other Company operations. The allocation of geographic revenue is based upon the location of the customer. The Company's international operations are principally conducted in Europe, Asia, Canada, the Middle East, South America and the Caribbean. The Company's international assets are substantially located in Switzerland.

Operating Segment Data for the Three Months Ended April 30, 2011 and 2010 (in thousands):

	Net Sales		Operating Income (Loss)	
	2011	2010	2011	2010
Wholesale	\$ 80,009	\$ 63,769	\$ 975	(\$5,672)
Retail	9,845	9,035	605	529
Consolidated total	\$ 89,854	\$ 72,804	\$ 1,580	(\$5,143)

	April 30,	Total Assets	April 30,
	2011	January 31,	2010
	2011	2011	2010
Wholesale	\$ 438,936	\$ 422,977	\$ 419,612
Retail	21,081	20,880	33,165
Consolidated total	\$ 460,017	\$ 443,857	\$ 452,777

Geographic Segment Data for the Three Months Ended April 30, 2011 and 2010 (in thousands):

	Net Sales		Operating (Loss) Income	
	2011	2010	2011	2010
United States	\$ 45,222	\$ 39,045	(\$3,867)	(\$6,308)
International	44,632	33,759	5,447	1,165
Consolidated total	\$ 89,854	\$ 72,804	\$ 1,580	(\$5,143)

United States and International net sales are net of intercompany sales of \$42.8 million and \$43.3 million for the three months ended April 30, 2011 and 2010, respectively.

	April 30,	Total Assets	April 30,
	2011	January 31,	2010
	2011	2011	2010
United States	\$ 180,609	\$ 185,718	\$ 189,962
International	279,408	258,139	262,815